The committee reconvened at 2 p.m. at the expiration of the recess.
Mr. Butters. Come to order, please.
Captain Robillard, will you come forward, please?

STATEMENT OF CAPT. GEORGE N. ROBILLARD, UNITED STATES NAY, APPEARING FOR THE DEPARTMENT OF DEFENSE

Captain Robillard, Mr. Chairman, I only want to take about a half minute. Yesterday I discussed the eight suggestions the Department of Defense had made, but I failed to note in the record that we otherwise approve the bill.

Mr. Butters. Thank you very much. When you say "we" whom do you mean?

Captain Robillard. The Department of Defense approves the bill.

Mr. Butters. You speak for all three of the branches?

Captain Robillard. I am representing the Department of Defense, the Navy, and the Air Force.

Mr. Butters. We are glad to see that they finally are coordinating.

Captain Robillard. It happens occasionally.

Mr. Butters. Mr. Rich, we spoke to you informally before the noon hour. Will you come forward, please, and identify yourself for the record? Give your name and in what capacity you appear.

STATEMENT OF GILES S. RICH, ESQ., NEW YORK, N. Y.

Mr. Rich. Mr. Chairman, my name is Giles S. Rich and I am from New York. I am a practicing patent lawyer and have been in practice for 21 years. I appear here as a member of the advisory committee of the Coordinating Committee of which Mr. Ashton spoke in his testimony.

As I will recall he also stated that I am and have been a member of the drafting committee which assisted in the preparation of the suggestions which the Coordinating Committee submitted to the counsel for your committee.

Mr. Butters. Do you have a prepared statement?

Mr. Rich. I do not have any prepared statement.

Mr. Butters. Mr. Rich, all right, sir. You may proceed.

Mr. Rich. I have been asked to make some remarks to section 231, which is the infringement section of this bill. I should perhaps explain why I should be selected to deal with this particular part of the bill, and I am, of course, very familiar, due to my activities on the Coordinating Committee, with the very great amount of work that has gone into the entire bill on the part of the committee counsel and the Coordinating Committee and all of the associations which worked tirelessly and sent the fruits of their labors to the Coordinating Committee.

I also know, of course, how the labors of the Coordinating Committee were focused on the basis of your committee print which was prepared after studies of all the legislative proposals of the past two years.

The infringement section, however, has perhaps received even more consideration than any other part of the bill. As Mr. McCabe pointed out to me this morning, much of section 231 is based upon two prior bills which were introduced in the previous Congress. H. R. 3004 of the Eighty-Fifth Congress and H. R. 6028 of the Eighty-Fourth Congress. These bills dealt specifically with a subject which your reporter has referred to as contributory infringement.

Mr. Butters. With the fringe on top.

Mr. Rich. I can also recall having made a salient effort to explain in previous hearings on one of these bills what the difference was between contributory infringement and contributory negligence. Some people wanted to know who contributed to what. So perhaps I should state at the outset where there is contributory infringement there is somewhere something called direct infringement, and to that direct infringement someone has contributed. It is a very different thing from a concept like contributory negligence. And it is an old doctrine that has been in the law for some eighty odd years.

As Mr. Taft said in the case of the Brass (50 F. 2d 195), the Judge Taft said of this doctrine:

If this rule is to be applied to trespass upon patent property, then indeed the protection which is promised by the constitution and by the treaty of the United States is not a protection. Many of the most valuable inventions are combinations of patentable elements and the only effective mode of protecting an infringement in suits against those who, in finishing the parts while taking the combination, make it possible for others to assemble and use the combination is not by advertisement of the sale of such parts, but otherwise, intentionally solicit and promote such invasions on the patent rights.

Now, Judge Taft was on very sound ground in making these statements.

Mr. Butters. That was Judge William H. Taft?

Mr. Rich. Who was subsequently President of the United States.

Mr. Butters. Was he Chief Justice then?

Mr. Rich. At that time he was on the Circuit Court of Appeals, I believe of the Sixth Circuit.

Mr. Butters. We frequently hear his name, or the family name, mentioned here on Capitol Hill now.

Mr. Rich. Coming specifically to section 231, which I have called the infringement section, it seems to me that this is a codification of the finest kind. It does not deal exclusively with contributory infringement, but with the whole subject of infringement which is a logical part of any codification of the patent laws. You will observe that it begins with section (a) in which infringement generally is the first, and in which it is defined in patent statute. The laws that we have said nothing whatever on the subject of infringement. They simply create a right and leave it to the courts to enforce it. But section (a) deals specifically with the matter and says that such infringement, if, of course, is direct infringement, which is the making, using, or selling of the patented invention without permission. Then if you go over to section 231, in the next subsection of this bill, you find that if states that any party shall have a defense of infringement.

So it is very neat and logical arrangement.

Now, the origins of the rest of 231 are to be found in these two previous bills which I mentioned. And I would note that the hearings were published, and I am sure it was because I testified at some length on both of those bills that I was
asked to deal with the subject here today. Paragraph (b), (c), and (d) can be compared with the old bills in this fashion: Paragraph (b) of the first bill comes from the first section of the old bill, and the number, and provides that any person who shall actively infringe a patent shall be liable as an infringer.

In the old bill section 2, was purely introductory, and then we had section 3. Now, those sections have been very nearly combined by your own committee counsel into the single section (c) of the present bill. We previously had a positive statement coupled with negative statement looking at the opposite side of the situation, and your counsel felt that that was an unnecessary thing to do. You could just as well say what it was and be done with it. And it has turned out very nicely.

Section (c) comes from section 5 of the old bills and deals with a topic which has come to be known in the patent law as the misuse doctrine, and I will have something to say about that in a moment.

I would like to say why I think this is codification of the finest kind. We deal in this law the doctrine of contributory infringement at the moment. In the last case in the Supreme Court, by which some people think the doctrine was abolished, it was actually specifically recognized by the Court. Only they said they couldn't apply it.

On the other hand, we have the conflicting doctrine called the misuse doctrine, and we have to deal with both of them if we are to tackle the problem at all.

In the case, known as the Mercoid cases the doctrine was allowed to an extent and rendered obsolete. In the course of testimony on these previous bills it became unquestionably clear that there was a certain amount of disagreement about the state of the law. How much contributory infringement do we have? Do we have any? The decisions out of which this confusion arose, the Mercoid cases, show that there is confusion because the Mercoid case was decided on separate opining, and the Court managed to render five separate opinions. There was one majority opinion by Mr. Justice Douglas in which Justice Stone and Rutledge concurred. There were three opinions by Justice Murphy and there were three separate dissenting opinions, the first by Justice Roberts and Reed, the second by Justice Frankfurter, and the third by Justice Jackson.

The legislation left things in a rather confused state.

Now, it was not an easy task for even the experienced members of the patent bar to take this situation and try to clarify it and codify it because the parts had not had any clear-cut line. That is the problem with which we wrestled. What we have been trying to do all along is to pick a sensible line in accordance with public policy as it seems to exist today, and to make it as clear as we possibly can. And that's the thing we have done within the limits of the English language. You cannot deal with situations which are, of necessity, going to vary and make language so clear that it is beyond any interpreting at all.

That is what we have done.

But I think with all the work that has been done in the course of these 4 years since the introduction of the first bill on contributory infringement, that we have come up with a solution which suits practically everybody.
Mr. CHURCHILL. If neither the component part or the machine it 
occurs into is patentable, I do not see where there could be infringement.
Mr. RUTT. Neither do I.
Mr. CHURCHILL. In reading section 21 of the act, it seems to me
that knowing the component of a patented machine, manufacture,
composition or combination, or a material or apparatus for use in practicing
a patented process
Mr. RUTT. That is very plain.
Mr. CHURCHILL. In this method there is water involved, and likewise
with the material claims an aqueous solution is called for. Other
chemicals apparently could be added to this mixture which these
cases came along later dealing with articles of that kind, holding that to be control the sale of certain articles such as stove pipes, sheet iron and nuts and bolts would be too great an interference with trade and should not be tolerated.

This thought goes back to the very earliest days. It was the bad sight of in the very number, this doctrine became greatly inflated, it was greatly abused, the courts justly cracked down on it. The whole situation got a bad smell, and in due course, this new doctrine of contributory infringement was developed which sort of counterfeited it, and we are today left with a dilemma in which we are trying to straighten it out.

Mr. O'Laenke. I am merely citing those examples to try and clear up my own thinking on the application of this section.

Mr. Rucn. Well, in each case you would have to look at the details and see what was invented, and in effect whether the alleged infringer is appropriating somebody else's invention, or whether he is not.

And if you have a counsel who has definitely tried to do is to exclude the counsel who, among others, have supposed articles of commerce, staples, things that had nothing to do with the invention, nuts, bolts, cement, sand, nails, lumber, even things especially adapted, as Mr. McCabe pointed out this morning, and gets into other people's apparatus, unless it is a material part of the invention. And I think that Mr. McCabe has overlooked the fact that we have added those words to this statute.

Mr. O'Laenke. Before going to that, I may inquire concerning section 5 of 521.

Do you understand that that is just an attempt to clarify what the judicial decisions have set as contributory infringement?

Mr. Rucn. I could not say, sir, yes or no, because the judicial decisions have said so many different things at so many different times.

Mr. O'Laenke. That is the point I am getting at.

Mr. Rucn. There are many of them in controversy.

Mr. O'Laenke. This field of patent law is the only one I know of in which the Supreme Court has specifically overruled itself.

Mr. Rucn. That leads to the next thing.

Mr. O'Laenke. That means that when you ask me a question like that I have to say: Of what period of time are you speaking?

Mr. Rucn. This section was given some further information to the effect that this bill was merely a restatement of statutory law plus common accepted interpretations of the Supreme Court or higher courts, and that therefore, the entire bill should not be construed.

And we come to the question of infringement without looking at the text, as set forth here in section 521, and we recognize that the law before was such as to define infringement shall be liable under the court of equity, and which takes care of section (a) as I understand it.

And then (b) is the annulment of another action, why, he is liable as an infringer.

And under (c) we have, as you have testified, and many others, such a decision of the court that reached to a contributor. That is, one who sets about giving you demonstrated, and in many other instances, to get around—let us put it point blank—that many people sit around and try to arrive at some manner and method in which to get around a patent.

Mr. Rucn. May I say that section (e) does not primarily deal with that particular kind of a situation, it deals more with a situation,
where the capacity of the industry is such, perhaps, that the intention is not sold in the form in which it is claimed in the patent: it is not in a slightly incomplete form like the lamp without the chimney, so that there is a technical defense based on the omission of something mentioned in the claim. As in this O'Donnell moulding case, the mould was sold as a dry powder which the dentist mixed with water, but the water was included in the mould, so that it was not a patent a remedy by attempting to grapple with the infringement in the situation in which the patentee found it practically impossible to enforce the patent unless he could proceed against somebody who was not technically a direct infringer, but was a person who did something calculated to bring about the infringement.

Mr. Roaxes. In that instance he would be a direct infringer and not contributory. Is that not the case that you illustrated?

Mr. Rich. Not under the technical definition of the contributory patent law. The reason is that the defendant who is doing these acts is not making or using or selling the invention claimed in the patent, but something different.

Mr. Roaxes. Some part of it.

Mr. Rich. There is no difference between what he is selling or making or using and the claim language, then it becomes something other than a direct infringement and you have to put a different label on it, and it is called contributory infringement. And the important thing that the courts all seize upon and the thing which is all the trouble is that the thing which does not meet the terms of the claim becomes an unapproved state.

Mr. Roaxes. I am not sure I follow you.

Mr. Rich. It is not covered by the claim, the claim doesn't fit. It is in its nature, you cannot put the one down on the other, and make them fit, there is a difference. The minute there is a difference, there is no infringement, therefore you have to go after them under the principle of contributory infringement.

Mr. Roaxes. Have you an example of such an action after the one who, according to this definition, knowingly prepares the article and this article is a material part of it, for the special purpose of using it to infringe the patent. You make all the necessities required in order that he may be guilty as a contributor.

Mr. Rich. Were you present yesterday when the Justice Department made its statement?

Mr. Rich. I was not present, but I know the testimony.

Mr. Roaxes. You know the testimony?

Mr. Rich. I have read it.

Mr. Roaxes. You know their position in the matter. It might lead to further antitrust violations, or monopolies. Have you any comments in that regard?

Mr. Rich. I do have comments on the statement, with which I do not agree with respect to its conclusions. I do not agree that this section, if enacted, would extend the law of contributory infringement. There seems to be a point of view that there is no such thing as contributory infringement today, then this will establish the doctrine by bringing it back into force to a certain extent. But as I remember the testimony of the representative of the Department of Justice on the second contributory infringe-

ment bill, it was the effect that the Supreme Court had not abolished the doctrine of contributory infringement, that it was still within the application in a proper case, and that what we are trying to do is that it is there for application in the proper case.

Mr. Rich. Well, I am not quite sure that there is some difficulty of opinion among those engaged in the practice of patent law as to whether or not the Supreme Court has done away with contributory infringement.

Mr. Rich. There is a great difference of opinion.

Mr. Rich. There is a great difference of opinion on the part of the bar and also apparently on the part of the judiciary, because down to the fourth circuit, in the case of Photograph. Major vs. Strope, this (77 USPQ 451), the court held the defendant liable for contributory infringement, and said the Merced case indicates and that the Supreme Court apparant, as in the case of Holley vs. Holte, as in the case of Photograph. Major vs. Strope, overruled the Motion Picture Patent case when it reversed itself as I mentioned earlier.

Mr. Rich. They were, and in very good form, the attorney for the winning party in that case, said he did not think it was a proper case. Obviously the circuit court did not properly apply the Merced case, and I am sure that if we had gone up we would have been reversed.

Mr. Roaxes. The effect of this modification, particularly as to section 211, would point out to the court, at least that it was the sense of Congress that we remove this question of confusion to as whether contributory infringement exists at all and in positive law there is such a thing as contributory infringement, and at least in the sense of Congress by the enactment of this law that if you have the Merced case done away with contributory infringement, then there is no statute or substantive law of the United States, and that you shall hereafter in proper case recognize or hold liable one who has contributed to the infringement of a patent.

Mr. Rich. This is a substantiative law that has not been adopted if we adopt this section 211 as it now exists. Is that not the effect?

Mr. Rich. That is a very excellent statement, and I am very glad that you made it in the patent law that this is the situation in which the decisions of the courts have not been necessarily a parallel for the one that only Congress can solve the problem.

Mr. Roaxes. Now, I like Mr. Crumpacker have had some letters and personal communication; They place no interpretation on this to this effect. Suppose I were the manufacturer either through a special order or if I had it in my regular order of business would make a staple article. Of course, you would then know it was not a patent. Yes, the, the company on a special order and told me that he would be using it and that you have never attempted to produce it and it did not violate this patent of this machine and that that is an obligation that is placed upon me as the manufacturer and the never involved in the law before.

Mr. Rich. Now, if you enlighten us as to what obligation the manufacturer may have to make an investigation of that situation prior to the Merced case or afterward.

What I mean by that is: Did he, prior to that time, lay himself liable as a contributory infringer prior to the Merced case or had his status changed any by the Merced case, or was that dependant upon
the interpretation that you have illustrated here, that one set of the members of the bar say that it has done away with contributory infringement and the other says that it has not. And this is just merely for the purpose of trying to clarify it. But in the clarification, does it place the manufacturer of these articles under any greater handicap than he had before if this was passed as a law?

Mr. Rich. I don't think it places him under any greater handicap than he was under for a long time.

As I suggested, in the old days, back before 1917, say, there was a contributory infringement doctrine which really flourished. Almost anybody who made any part of a patented invention, especially an element of a combination, might be held liable. And business lived with this for 25 years without much trouble. I don't think he is under any greater handicap than every businessman is under in taking the risks every time he makes anything.

There are ways of finding out, and he is certainly not terribly handicapped when he has to go and do this knowingly. He has to know what he is doing this for, and then if he is doing it knowingly, he only has to conform. It is counsel as to whether what he is sufficiently constitutes a material part of the invention, and so on, complying with the rest of (c). And this is an ultra conservative type of contributory infringement. You have to balance the equities in this situation. It puts a little hardship on some businessmen to find out what their patent was. But on the other hand, remember this: there may be twenty or thirty percent of all the patents that are granted that cannot practically be enforced against direct infringers because of the nature of the invention and the way it is claimed in the patent.

Like this dental compound, it is simply not feasible to go around the country suing every dentist who buys a package of this stuff, and the practical way to give the patentee some way to enforce this right that he has been given is to let him go after the brains of the enterprise, the person who is really responsible and not the innocent end user.

Mr. Rogers. Well, I take it, then, that this would include the chemicals that you are talking about, that are necessary in a dental case, that if I manufactured one of them, and Mr. Crumpacker manufactured another and the chairman manufactured another, and you manufactured, the fourth ingredient necessary to make this up, we are engaged in a business, probably making that particular chemical which we sell as a staple article.

Now, by virtue of the fact that the man has the patent on it, the rest of the world, if they want to, can go down here to the Patent Office and get that combination, and suppose that Mr. X then sees that combination and he then comes to me and the other manufacturers and buys in large quantities and proceeds to infringe the man's patent, and we know that when he buys it, that he is going to use it for that purpose.

Mr. Rich. You and each of you, it seems to me, are beyond question, specifically excluded by the language of paragraph (c).

Mr. Rogers. Because we have a staple article or.

Mr. Rich. Yes; because what you are selling, is not a material part of the thing which was invented, which was a combination of chemicals which had to be brought together from the ordinary sources of those chemicals.
that extent only, specifically make exceptions to the misuse doctrine, and that is the purpose of paragraph (d). It goes with, supports, and depends upon paragraph (c).

Mr. Bartson. We are very much obliged to you, Mr. Rich, thank you.

Mr. Bartson. We will next hear from Mr. Fugate, of the Department of Justice. Will you come forward, please, and identify yourself for the record, please.

STATEMENT OF WILBUR L. FUGATE, TRIAL ATTORNEY, ANTITRUST DIVISION, UNITED STATES DEPARTMENT OF JUSTICE

Mr. Fugate. My name is Wilbur L. Fugate, and I am a trial attorney in the Antitrust Division of the Department of Justice.

Mr. Bartson. Do you have a prepared statement?

Mr. Fugate. No, sir; I do not.

Mr. Bartson. Do you contemplate requiring much time?

Mr. Fugate. No, sir; I do not believe so, particularly in view of Mr. Rich's comments.

I will address my remarks specifically to section 231, which he has just commented upon.

Mr. Bartson. All right, you may proceed.

Mr. Fugate. First, I wish to refer to the statement of the Department of Justice at the hearings on H. R. 3866 of the Eighty-first Congress, a former bill to enact this doctrine of contributory infringement into law, and in substantially the same form as this bill.

The doctrine of contributory infringement arose out of a common law doctrine that one who aids another in committing a tortious act may find himself guilty of a tort.

One case, at least, has defined "contributory infringement" as the intentional aiding of one person by another in the unlawful making, using, or selling of a patented invention.

It has been settled that there is no contributory infringement without direct infringement. It has also been settled, as Mr. Rich mentioned, that the sale of a staple article of commerce to a direct infringer does not constitute contributory infringement, even though the seller of that article knows that it is to be used in direct infringement.

So much for contributory infringement on the one hand.

The other doctrine which Mr. Rich mentioned is that of misuse of patent, which has a long history. It was perhaps given body in the Merced decision. The "misuse of patent," insofar as it has anything to do with contributory infringement, is the doctrine that one who has been granted a patent may not license upon condition that the purchaser may not deal in goods of another; or, in other words, that the purchaser purchase unpatented supplies exclusively from the patentee.

A similar doctrine has been written into law in section 3 of the Clayton Act.

Now, the Merced case merely held that the practice in that case was substantially similar to this "misuse" doctrine, or this "tie-in clause" doctrine which the court had formerly announced. In the Merced case the patentee and his exclusive licensee had engaged in the practice of selling an unpatented Stoker switch together with a license that the sale of the Stoker switch gave the purchasers a license to use a patented furnace assembly.

Then, in order to enforce that practice, the patentees used suppliers of the unpatented Stoker switch. The permission for that infringement exists. The Supreme Court in the Merced case assumed that contributory infringement did exist.

Now, at the hearings on H. R. 3866, the Department submitted a list of cases subsequent to the Merced case in which it seemed to us, at least, to be apparent that there was no confusion as to the doctrine of the Merced case, where contributory infringement did exist, and no misuse existed, why then there was no obstacle to recovering, where the patentee was misusing his patent, he could not recover even though contributory infringement did exist.

Mr. Rogers. Pardon me for just a moment. Do I understand that your interpretations of the present decisions are to the effect that the Court does recognize contributory infringement?

Mr. Fugate. Yes, sir.

Mr. Rogers. As a cause of action?

Mr. Fugate. Yes, sir.

Mr. Rogers. And that this definition of "contributory infringement" is any different from that recognized in the decisions?

Mr. Fugate. Yes, sir. We believe that the definitions are considerably different.

Mr. Rogers. Would you point that out?

Mr. Fugate. I will point those differences out. I will divide it into two phases, if I may. First, the definition of "contributory infringement" proper and then the provision relating to the misuse doctrine.

You were interested, Mr. Rogers, a while ago as to whether or not someone who knowingly sold an article, especially adapted for use in a patented combination, could be guilty of contributory infringement even though he did not know that it was to be used.

Under the present law, I do not believe that he would be guilty of contributory infringement.

In that connection, I might cite the case of Lane against Park, 49 F. 496, in which it was held that a manufacturer who cut metal plate according to a pattern and ordered by a buyer for infringing use was not himself guilty of contributory infringement in the absence of knowledge of the purpose for which the metal plate was to be used.

I believe that represents the law on that subject.

Now, as to the fact that the article is especially adapted for infringing use, I wish to quote from the old cases of another, or, in other words, from the Clayton Act, a case which, was overruled as to the misuse doctrine but not as to this particular statement. The Court in this case said that such a "presumption"—that is, the presumption that, if an article is especially adapted for use in an infringing manner there is an intent that it be so used—"arises when the article so sold is only adapted to an infringing use."

You will note that it is merely a presumption and that, if the intent does not exist, it is not to be inferred, and hence there can be no contributory infringement; and I believe that is still the present law.
Mr. Rogers. Recognizing that the present law gives the cause of action against the one who has contributed to the infringement, I believe you take that position, although some of the members of the bar say that that is not the law. But, assuming that to be the law from the definitions of the various court decisions, how does section 291 in any manner misstate that law or enlarge upon it and, if so, how?

Mr. Fugate. I believe that it does. Sub-section (c) states that "whoever knowingly sells a component of a patented machine." Now, in subsection (c) is there any reference to knowledge that the component part is to be used in an infringing manner.

Mr. Rogers. You think that the fact that it says "whoever knowingly sells a component of a patented machine" without also putting—

Mr. Fugate. If that means that whoever shall sell a component part of a patented machine knowing that it will be used in a patented combination or something of that sort, why, I would think that it does state the present law. But I understand that Mr. Rich took the opposite view.

Mr. Rogers. What I am getting at is that this section (c) says "whoever knowingly sells" and so on "for use in producing a patented process, constituting a material part of the invention." Now, under that definition he has got to knowingly sell a component part knowing that it constitutes a material part of the invention.

Mr. Fugate. That is why I am not sure as to the meaning. I am not sure that it means that.

In fact, as I understood from Mr. Rich, he doesn't think it means that.

Mr. Rogers. As I understood Mr. Rich, he said that there were some who just felt that the Mercoid case did away with contributory infringement.

Mr. Fugate. I don't believe the Mercoid case enters into this particular part. It may be a matter of language. At any rate, if this means that whoever knowingly sells a component of a patented machine knowing that it is to be used in an infringing manner, why, I believe it states the present law of contributory infringement.

Mr. Cruickshacker. It is purely a matter of semantics, as I see it. That is, the "knowingly" refers to the fact that it is to be used as a component rather than to the selling of it.

Mr. Fugate. That is the question that I raise: yes.

Mr. Cruickshacker. Your objection is to the phrasing of the thing rather than to the substance of it.

Mr. Fugate. It is to the language.

Mr. Cruickshacker. To put it differently, if the language means that the "knowingly" refers to the use of the article as a component in some patented thing, then you say that it correctly states the law.

Mr. Fugate. I believe so.

Mr. Cruickshacker. Your objection is that you don't think the language clearly indicates that that is what the "knowingly" is supposed to refer to?

Mr. Fugate. Yes, sir.

Mr. Bryan. It seems to me that if he sells it at all he knows he sells it.

Mr. Fugate. He knows he sells it; but, as in this case that I mentioned, the cutter of the metal plate according to a special pattern didn't know that that was to be used in an infringing manner, that it was to be used in a patented combination.

Mr. Rogers. Inasmuch as you recognize that the law still gives the cause of action against the contributor who helps infringe, would there be any objection on the part of the Justice Department to clarify that law in definite words so that there would not be the confusion that the attorneys have testified to? Or is the objection by the Justice Department to the fact that you are fearful that if this is in the law it may lead to monopoly and drive out those who may have the incentive to do something new or comparable to the patented article?

Mr. Fugate. I believe we oppose it for both reasons. The Department objects to writing the doctrine of contributory infringement into the law. It is not particularly a patent doctrine. It arises from a common law source. Therefore, it doesn't seem to have any particular place in the codification of the law of patents.

Mr. Rogers. You think that there is not a great deal of confusion among attorneys as to what constitutes contributory infringement; that is, more than as to what constitutes negligence in an ordinary damage suit, recognizing that it is impossible for us to write a rule of law for every rule of conduct of every individual?

Mr. Fugate. Yes, sir; that is the position.

Mr. Rogers. For that reason any attempt to do it would not cover the entire field, and if this particular field were covered in some manner, it would lead people to violate the so-called antitrust law.

Mr. Fugate. Yes, sir. Our primary objection to section 291 is subsection (d); that is, the misuse doctrine. Now, at present under the Mercoid case, as I have stated, if there is misuse of patents, the patentee cannot recover either for direct infringement or contributory infringement.

Now, this section attempts to say that if there is contributory infringement the patentee may recover even though there is misuse. As I read the section, it would have the effect of wiping out a good deal of the law relative to misuse of patents, particularly with reference to tying-in clauses.

Mr. Rogers. As I understood Mr. Rich, it was to the effect that this subsection (d) only went so far as to say that it is a misuse of a patent and that they couldn't recover and that it didn't go ahead and also make a contributor liable; or does it?

Mr. Fugate. As I interpret section (d) it says that if there is contributory infringement the patentee may recover even though there is misuse. It says that if he seeks to enforce his patent rights and infringe the right of the contributor infringer to use the patent, that is, under 3 of subsection (d), relating from subsection (d), "the patentee shall not be denied relief or deemed guilty of misuse of illegal extension of patent rights."

Mr. Rogers. Do you think there is any possibility that the Justice Department and the coordinating committee can arrive at a solution of this problem of violation of misuse of patents in such a way that you may remove the confusion that you seek to avoid?

Mr. Fugate. I can't speak for the Department on that. I am sure that wherever there is a question of confusion in the law we are always willing to cooperate in any attempt to remedy it. We have taken the position that we don't think there is any confusion in the law in this
Mr. Riker. And you think that section (d) would change those decisions in certain respects?
Mr. Pugh. Yes, sir.
Mr. Riker. And so far as you are concerned, you don't think that any confusion exists as to what constitutes contributory infringement under the present law?
Mr. Pugh. Yes, I think that is so.
Mr. Riker. You say "controversial." As I understand the controversy, it is as to whether or not the Supreme Court will recognize an action for contributory infringement. Now, you take the position that they still do recognize that and that there is no confusion as a result of their decisions.
Mr. Pugh. That is your position, is it not?
Mr. Byrson. Although a recent decision was made by a 5 to 4 division of the Court from which came five separate reports, and that fact does not indicate that there is any confusion.
Mr. Pugh. That was the Merced case, I believe, which Mr. Rich had reference to and in which the opinions all agreed on the misuses doctrine.
Now, since that time the Supreme Court has affirmed the Merced decision in a number of cases.
Mr. Byrson. Would you list them, please, for the record?
Mr. Pugh. For one there is the United States v. Line material Co.
Mr. Byrson. How was the Court divided in that case?
Mr. Pugh. I don't believe there was any dissent from the Merced case.
Another case is the United States v. Paramount Picture (324 U.S. 131). I believe there are many others in which the Court cited the Merced case with approval.
Mr. Byrson. Are there any other questions?
Mr. Crumpacker. Yes. You say that the Department is opposed to this subsection (d)?
Mr. Pugh. Yes.
Mr. Crumpacker. In its entirety?
Mr. Pugh. Yes, sir.
Mr. Crumpacker. You mean to say that a patentee should be denied relief because he has previously sought to enforce his patent rights against an infringer?
Mr. Pugh. Not if he has been guilty of misuses of patents previously to that.
Mr. Crumpacker. It doesn't say that?
Mr. Pugh. It says—
Mr. Crumpacker. And it names three things, the third of which is that he has sought to enforce his patent rights.
Mr. Pugh. Well, now, if that is applied generally, it includes a case where there is a misuse.
Mr. Crumpacker. Why?
Mr. Pugh. Because it is all-inclusive. No one shall be guilty of misuse if he has sought to enforce his patent rights against infringement or contributory infringement. As I read it, you might also add "even though he has misused his patent."

In the Merced case, for example—

Mr. Crumpacker. It says that he shall not be deemed guilty of misuse because he has done one of these three things. It doesn't say that he shall be deemed not guilty of misuse because he has done all three of these things and is still guilty of misuse, as I interpret the language.
Mr. Pugh. That is not the way Mr. Rich interpreted it. As I understand his testimony, he said that where there was contributory infringement the doctrine of misuse would be limited, that it would be an exception to the doctrine of misuse. That is also the way I interpreted it.

Mr. Crumpacker. It seems to me that the language is clear, and it says that he shall not be deemed relief or be deemed guilty of misuse because of having done any of these three things. It doesn't say the reverse of that, that because of having done these things he shall be deemed not guilty of misuse.

Mr. Pugh. In the Merced case a suit for contributory infringement was part of the general plan of misuse of the patent. In other words, that was part of the plan of operation, the sale of the stock switches which were patented with the license to use them in a patent assembly. That license was given only to purchasers of the stock switches from the patentee or his exclusive licensee. Any other persons were sued for contributory infringement.

Now, the Supreme Court held that that plan of operation was substantially the same as adding the licensing of a patent on the condition that the purchaser purchase the unpatented part of the patented part from the patentee.

Mr. Riker. You are objecting to section (d) because these three things indicate that if he should do any one of the three or all of them he would still recover. Subsection (1) says "derived revenue from acts which if performed by another without his consent would constitute contributory infringement of the patent." Subsection (2) says "licensed or authorized a person to perform acts which if performed without his consent would constitute contributory infringement of the patent."

Subsection (3) says "sought to enforce his patent rights against infringement or contributory infringement."

Now, in the misuse of patents have they taken those three items as outlined there and said that that constitutes misuse of a patent and as a result have denied the patentee the right to recover? Have they therefore had decisions to that effect?

Mr. Pugh. I believe you are reading into that or rather interpreting that as meaning that a patentee shall not be deemed guilty of misuse of patents merely because he brings an infringement suit.
Now, if that is all it means, why, of course, the Department doesn't oppose it.

Mr. CUMPACKER. Do you find anything intrinsically wrong in any of these three acts enumerated there? Is the Department opposed to a patentee doing any of these three things enumerated in this paragraph?

Mr. FOGATE. As we read the section—

Mr. CUMPACKER. Never mind the preamble. I mean just specifically those items enumerated, the three items. Does the Department consider any one of those acts as undesirable or contrary to public policy?

Mr. FOGATE. I do not believe you can read them without reading them in connection with the preamble. Of course, if you mean does the Department oppose a patentee suing to enforce his rights by either direct or contributory infringement action, of course, we do not oppose that. We have no objection to a patentee enforcing his patent. However—and this is not only my interpretation—you have heard Mr. Rich interpret it as meaning that it makes an exception to the law of misuse of patents where contributory infringement exists. As I say, it is not only my own interpretation of the section.

Mr. ROGERS. If under the present law a man should do any one of the three things outlined in section (d), is he denied the right to recover because he may have performed one of those three acts?

Mr. FOGATE. Not in and of themselves.

Mr. ROGERS. What is that?

Mr. FOGATE. Not in and of themselves.

Mr. CUMPACKER. How about a combination of two of the three?

Mr. FOGATE. Not having had any part in writing the language, I am not certain what it means. But I am convinced that upon Mr. Rich's interpretation and upon the interpretation which the Department has placed on it, it does seriously impair the doctrine of misuse of patents in favor of the doctrine of contributory infringements.

Mr. ROGERS. In other words, the Department's attitude is that it should be the duty of the Court to ascertain whether or not there has been a misuse of the patent?

Mr. FOGATE. Yes.

Mr. ROGERS. Without the Congress saying that if he has misused it in these three separate items—well, I will put it this way. You do not feel that the Congress should say that if he has misused it in these three ways that he should thereafter be permitted to recover if the Court should decide otherwise?

Mr. FOGATE. Don't misunderstand me, that I think that any of these three in and of themselves are a misuse of patents. All I am saying is that if misuse exists the Court should be able to deny recovery on the ground of misuse of patents despite the fact that contributory infringement may exist.

Mr. ROGERS. Do you know of any instances where the courts have denied recovery where a patentee has performed by virtue of the fact that the patentee has performed any one of the three acts?

Mr. FOGATE. Well, the Mercoird case itself was a case where the patentee was attempting to enforce his rights in an action of contributory infringement. Now, as I read this section, he would have recovered in that case, in the Mercoird case, under this section.

Mr. ROGERS. If this section had been in the law expressed by Congress at the time the Mercoird case was decided, then by virtue of either one, two, or three, there would have been a recovery because it may have come within one of those?

Mr. FOGATE. All the patentee was doing there was seeking to enforce his patent rights against contributory infringement. He was denied recovery for infringement because he was using his patent. But his attempt to do something was to bring a suitor for contributory infringement, and the Court assumed that that existed in that case.

Mr. ROGERS. I may have misunderstood the Mercoird case. Was it misuse because he was requiring the purchase of something for the furnace?

Mr. FOGATE. That was misuse, and the misuse was sufficient to defeat recovery for contributory infringement.

Mr. CUMPACKER. Do you think any of those three items set forth in subsection (d) would fit into the Mercoird case in any manner?

Mr. FOGATE. I believe so.

Mr. CUMPACKER. I would like to make the observation that this is one of the few points in this bill where the language is clear and unequivocal, and it seems to me capable of only one interpretation, and that interpretation is entirely contrary to that which the Department seems to be placing upon it.

Mr. FOGATE. I believe Mr. Rich placed the same interpretation upon it. I would like to ask him if that is his interpretation.

Mr. Rich, as you interpreted this section, it would make an exception of the misuse doctrine where contributory infringement existed.
The court dismissed the suit "according to the principles announced in Mercoid and for the reasons therein stated."

That is a clear case where merely bringing a suit against one alleged to be a contributory infringer was per se misuse of the patent. Now, that is as far as the logic of the Mercoid decision can be carried.

Mr. EDER. The judge in that case had no trouble deciding that this was not misuse in bringing to suit.

Mr. EDER. He held that the bringing of this suit was per se misuse.

That was the end of it. You can't sue a contributory infringer.

There have been other cases like that. I have them here. The Lincoln Electric Co. v. The Linde Air Products Co. (80 U. S. P. Q. 39) is the same situation.

Mr. BAXON. We have been getting along beautifully all during this hearing, and it seems as though we have run into a period of confusion here. It might be like the judge down home of whom it was said that the more light you turn on him the blinder he got. That may have happened to the committee here. If you experts here in this particular field seemed confused, imagine those of us who sit here and who have had no special training.

Mr. RUCN. Mr. Chairman, you do not in the least surprise me; and if you have a minute it might help this committee and it might help the Department of Justice, if it is in an amiable mood, to know a little bit of the history of this section, which, as I said, came from those old contributory infringement bills.

The whole thing started in New York, not in Wall Street, but in New York where I come from.

Mr. BAXON. Well, coming from the South, I would say that you come into court with unclean hands.

Mr. RUCN. Now, we have a patent law association up there, as you have heard, which decided to tackle this problem of contributory infringement after the Mercoid decision and propose some legislation.

We worked on it through the Patent Law and Practice Committee for about a year and a half, to 2 years before any bill was proposed. The only reason this contributory infringement section was a proposal made by Mr. Robert Byerly, as the older members have heard.

It just happens that contributory infringement has been a hobby of mine since the Carnegie case was decided about 1882. I wrote an article on it at that time, disclosing that I had the slightest comprehension of what the court had done. Therefore, I shall not even cite it.

Since then I have learned quite a lot.

Mr. Byerly wrote a proposal which was in substance along the lines of paragraph (c) which revives contributory infringement and which was submitted to me and to other members of the committee. I said, "Well, it won't work, but it won't work because the reason we don't have contributory infringement is that every time you try to enforce a patent against a contributory infringer, the court says it's misuse and throws you out."

Now, the funny thing about all of these misuse cases is that what the defendant does has nothing to do with the decision. It is never a question of whether or not there was infringement. They don't decide whether the defendant is guilty or not guilty, whether he infringed or didn't infringe.

They say to the plaintiff, "You are a bad boy, and you came here with unclean hands. You will not have the aid of this court of equity."

Nobody realized that this had happened until a suit was brought first against a contributory infringer and lost, whereupon the plaintiff's attorney said, "That is too bad; we will have to sue the direct infringer."

They sued the direct infringer, and the court said, "Too bad, you don't appreciate the ground of the earlier decision. It is the plaintiff's fault that he can't recover. It is the defendant's, and it doesn't make any difference whom he suits."

Mr. ROGERS. Now, let me interrupt you there. I thought I asked the question whether or not the law gives a cause of action to the patentee against a contributor who contributes to the infringement, and I thought the answer was that in those cases they did have a cause of action. Now, I was wrong in getting that impression, that is, that there is no action against the person, or it is a cause of action exists at all, in the proper cases, a man can contribute and can be recovered against.

Mr. RUCN. I can only tell you that they do, even today.

Mr. ROGERS. All right, that is my impression as to the answer that was given. Now, following that, the next question is this: Would the fact that you then institute a suit against one who has contributed to the infringement result in a court automatically dismissing it because you have instituted a suit?

Mr. RUCN. I can only say that they do. It depends on what court you are in.

Mr. ROGERS. What was that?

Mr. RUCN. It depends on what court you are in.

Mr. ROGERS. Well then, do they dismiss it, though, because the action has been stated?

Mr. RUCN. Oh, no.

Mr. ROGERS. Or do they dismiss it because you have filed a lawsuit?

Mr. RUCN. No. They dismiss it because in attempting to utilize the patent as a weapon is against the public interest that you are thereby attempting to extend the monopoly which is contrary to public policy and constitutes misuse.

Mr. ROGERS. That would apply in all cases?

Mr. RUCN. It can if the defendant's attorney raises the point and the judge is sympathetic. But if it is down in the fourth circuit where they are not sympathetic, they may just brush off a defense based on the early case.

Mr. ROGERS. Can you conceive of a set of facts whereby one may be an infringer and a patentee has not by any act of his performed an act that was contrary to public policy that would cause the court not to dismiss the lawsuit? Have we ever had a case of that character that you know of?

Mr. RUCN. Not that I can recall specifically. The trouble usually is that the plaintiff is in business, and he has a patent which he thinks protects some aspect of his business. If he isn't in business at all and is just sitting there with a paper patent invention which has never been commercialized in any way, then he can hardly be guilty of unclean hands. That situation hasn't come up yet.
Mr. Rodriguez. As I understand so far, any action for contributory infringement has never been successful. Is that right or is it wrong? 

Mr. Rich. They have. The plaintiff has rarely recovered in an action for contributory infringement. 

Mr. Rosen. Well, at any time before the Merced case? 

Mr. Rich. Oh, yes, of course. This doctrine has been in the law, as it has for 89 years, and many patentees have recovered against contributory infringers. 

Mr. Rosen. All right, but since the Merced case have there been any recoveries? 

Mr. Rich. Yes. In Florence Mayo Nuway against Hardy, there was a recovery. That was the Circuit Court of Appeals for the Fourth Circuit in 1948. I think the third Circuit in 1948, the case of National Machine Works v. Harris (79 U.S.P.Q. 350), there was a recovery. 

Mr. Feigbl. May I just read from that case Mr. Rich mentioned. The court will clarify the issue a little bit. Judge Phillips said: 

It is urged that Gerber and National should have been denied relief under the doctrine as announced in Merced Corporation v. Midwest Electric Company. But, in the instant case, Gerber and National are using the patent not for monopolization of the sale of what is not patented, but to prevent Harris and Coelho from infringing and aiding others to infringe what is patented. Harris and Coelho would be guilty of contributory infringement. 

That is one of the cases that I believe we cited in the last hearing as indicating that the doctrine of contributory infringement still exists. 

Mr. Rosen. It does still exist, and Mr. Rich's thought is that if the man is ever well engaged in business, since the Merced case, he may have committed some act that is contrary to public policy and the court would deny him relief because of that act. 

Mr. Feigbl. Now, that comes down to what the court decides is or is not the misuse of patents. 

Mr. Rosen. Yes. 

Mr. Feigbl. Mr. Rich mentioned the Carbice case. The Carbice case, I believe, was the case in which contributory infringement was denied not from the misuse angle, but because the component part was really a staple article of commerce, and therefore it wasn't contributory infringement at all. 

In fact, when the court in the Merced case refers back to the Carbice case, they say that the doctrine of misuse hadn't been enunciated at that time. 

Mr. Rich. May I participate in this dialogue which I greatly enjoy because I teach patent law? 

Mr. Rosen. You probably have some apt pupils here. 

Mr. Rich. Carbice was historically the first case of misuse, although the word is not used in that case. The reason for the decision in favor of the defendant is stated in these words: 

Relief is denied because the Dry Ice Co. is attempting, without sanction of law, to employ the patent to secure limited monopoly of a patented material. That is the key to that case. It was affirmed and explained again shortly thereafter by the same court, the same judge, in Latch versus Barber, where they were selling asphalt emulsion for curing roads. There was a patented process for curing the roads, and the asphalt emulsion was old stuff. They said in effect, "The same reason, relief denied, no decision." 

Mr. Rosen. I thought I had a clear understanding of the question. We do recognize that there is a cause of action for contributory infringement. Now, that is admitted. But the Merced case, as I understand it, for the first time, decided on the theory that the patentee was not using his patent and, therefore, although one may have contributed and been guilty as a contributory infringer, nevertheless relief was denied because of the misuse of the patent. 

Mr. Rich. That is correct. 

Mr. Rosen. That is correct up to that point? 

Mr. Rich. That is exactly like the line with Carbice, which, of course, is the line which this Circuit was relying on. 

Mr. Rosen. All right. Now, due to what many members of the patent bar believe, that it did away with contributory infringement, you, if that should now state as a positive law, that there is no action against contributory infringement as set forth in section 271, and if he has done one of the three things in section 4, that shall not be considered a misuse of his patent, and, finally, by reestablish, you would have said you had before the Merced case. Isn't that about what the situation is? 

Mr. Rich. That is what we are driving at. I appreciate now that I never finished the statement I intended to make when I got up here, the history behind the reason for paragraph (d). 

When the proposal was made to reenact contributory infringement, or the equivalent of paragraph (c), a simple enactment, "This shall constitute contributory infringement," I pointed out to the author that it wouldn't work because contributory infringement was still with us as a legal doctrine. The only reason the plaintiff got no recovery was that he was held guilty of misuse. 

So this, like the cat in Alice in Wonderland that was there but disappeared all but its smile, to be brought back and have a body again, meant that you had to do something about misuse. You had to say that, no matter how we want contributory infringement back, the act shall no longer be labeled as misuse, thus throwing the man out of court. 

So attached to paragraph (c) we have a paragraph (d) that says that the recovery, the enforcement against contributory infringers, the holding out of the patent against contributory infringers, and granting them licenses, the use of it to protect the business and making the owners of these money out of it, and getting your reward as a patentee, all of these things shall not be misuse, and then contributory infringement, which we have had all the time, would become effective again to the extent that they wish to have it so. 

Mr. Carraclay. Well, I take you this paragraph (d), would you consider this paragraph (d), would you construe it in any way prevent a court from holding the monopolistic practices referred to as being misuse of patents? 

Mr. Rich. If you construe it in any way prevent a court from holding the monopolistic practices referred to as being misuse of patents? 

Mr. Carraclay. I beg your pardon. It was distractive. 

Mr. Rich. As you interpret this paragraph (d) as it now stands, I construe the invention, little practices referred to as being a misuse of a patent. That is, monopoly of unpatented articles through the use of a patent. 

Mr. Rich. If we assume that staples are excluded from paragraph (d).
Mr. Rich. The answer is that (d) would not prevent their being held the act being held to be
Mr. Fegat. I might point out that in the Mercoid case the stocker switch may not or may have been a staple article of commerce especially adapted for use in a patented combination. In other words, it was contributory infringement. The court recognized that. However, as Mr. Rich pointed out, it was the action of the plaintiff which made him ineligible to come into court and recover for contributory infringement.

Mr. Rogers. May I ask this further question? Do you know of any case where the plaintiff was denied relief because he had accepted revenue from acts which, if performed by another, without his consent, would constitute contributory infringement of the patent? That is number one.

Mr. Rich. The Barber Asphalt case. I think it is typical of that, and to some extent the Carbine case. In the Carbine case there was a form of license-on-the-invoice. In the Barber Asphalt case they tried to distinguish on the ground that they had no agreements with anybody, so that what they were doing was deriving revenue in the form of profits from the sale of the unpatented staple commodity for use in the invention.

Mr. Rogers. So the court then said that act constituted something leading toward monopoly or contrary to public policy, and for that reason denied relief to the plaintiff?
Mr. Rich. That is correct.

Mr. Rogers. Now, as to No. 2, are there any cases where licensed authorized persons performed acts without their consent, would constitute contributory infringement of the patent?
Mr. Rich. Well, that is the Mercoid type of situation.
Mr. Rogers. Yes.
Mr. Rich. It must, of course, be realized that if we had had a statute like this, the Mercoid case might have been tried differently, on a different theory. But it deals with granting licenses to people who would otherwise be contributory infringers, not direct infringers, because they are only making part or less than the whole of the invention.

Mr. Rogers. Well now, do you know of any case where they have denied relief to the plaintiff where he had sought to enforce his patent rights against infringement or contributory infringement on this section 3?

Mr. Rich. Do you mean section 2, licensing?
Mr. Rogers. No, section 3 of (d).
Mr. Rich. That is sought to enforce?
Mr. Rogers. Yes.
Mr. Rich. That is the Stroco Products v. Mullenbach case.
Mr. Rogers. Then the effect of (d) with the (3) in there would be to say to the Supreme Court that it is the sense of this Congress that where you have hereafter denied relief to the plaintiff, you shall henceforth grant him relief if he has only performed one, two, or three of these acts in (d), and that is why the Department of Justice is objecting to it if it.

Mr. Fegat. Yes, sir.

Mr. Rogers. And it would therefore necessarily follow that by taking (c) and (d) together we are asking the Supreme Court to not follow the line of reasoning of declaring that a man shall be denied his day or damages if he has done any one of these three acts. Isn't that what it amounts to?

Mr. Rich. That he shall be denied his day or damages merely because he has done one, two, or three, or all of these acts if the contributory infringement referred to in (d) is of a type which falls within the specific terms of (c).

Now, a suggestion has come to me during this discussion which may bring the views of Justice and of the patent bar together. That would be to insert in the third line of paragraph (d) before the last word "by" the word "solely" so that he shall not be deemed guilty of misuse or illegal extension of patent rights solely by reason of his having done one or more of the following.

If it has gone beyond those and done other acts which could be misuse, then the misuse doctrine would be applicable.

Mr. Rogers. But then even with the word "solely" we would still say to the court that if he had done one of these, he could not be permitted to recover.

Mr. Rich. If he has not misused it otherwise. If it comes within the terms of (c). If he tries to license somebody, for instance, to manufacture a staple article of commerce, to be sold in a patented invention and-collect royalties, let us say, for the manufacturing of salt tablets to be used in a patented vending machine or dry ice to be used in a patented shipping container, that will be misuse because it doesn't come within the terms of (c).

Mr. Rogers. I might ask the further question as to whether you think this is as good an act as if leaving all of this on the floor of Congress in trying to recodify the laws of patents?

Mr. Rich. No comment.

Mr. Barson. Any further questions?
Mr. Rich. I think there are many other sections in the law which you would have difficulty in explaining on the floor of Congress, too.

Mr. Barson. Mr. Crumpacker has some questions.

Mr. Crumpacker. As far as (c) is concerned, I am inclined to think that there is possibility that the phrase could be improved upon there to remove the possible misinterpretation referred to? Mr. Rich. I don't know.

Mr. Crumpacker. Particularly with respect to the word "knowingly" and as to what the word "knowingly" refers to.

Mr. Rich. I think it is clear to most of us that "knowingly sells a component of a patented machine" means to us that you know that the component is going into that machine. You don't have to know that it is patented. You don't have to know the number of the patent, and you don't have to know that the machine that it is contained in is an infringement. You just know it's ultimate destination.

Mr. Crumpacker. But the way it is phrased the word "knowingly" refers directly to the word "sells." Mr. Rich. I understand it, Mr. Rich only imports it to refer to the word "sells." The one who sells it need not know that it is to be used in a patented combination.

Mr. Crumpacker. As I understand it, the wrong that is supposed to be committed is the knowledge that it is going as a component in a patented machine.

Mr. Rich. Or maybe he is just selling tapered pins.
Mr. CRUMPacker. I say that he knows that he is selling it. He may not know that it is to be a component in a patented article. Mr. RICH I think that is a construction which nobody would ever put on this section. Anybody who sells, of course, knows that he is selling it. There is no point in saying "knowingly" if that is all it means.

Mr. CRUMPacker. The Department of Justice has put that construction on it. That is why I raised the question. Mr. RICH. I can hardly believe that they would.

Mr. FuQATE. I would like to know whether Mr. Rich is construing "knowingly" as meaning that the supplier knows that it is to be used in an infringing manner.

Mr. RICH. And constitutes a material part of the patent.

Mr. FuQATE. Yes, that is the point.

Mr. RICH. I have already explained that he knows how it is to be used. He doesn't have to know about the patent, he doesn't have to be legally advised of that infringement.

Mr. CRUMPacker. To someone who is not familiar with this subject, it is not at all clear what elements you are supposed to know about and what elements you don't need to know about, in order to violate the statute. I think it could be made much more specific and more understandable.

Mr. BRAXTON. We shall have an opportunity to try to rectify those different things. Gentlemen, we have run out.

STATEMENT OF I. E. McCABE, CHICAGO, ILL.

Mr. McCABE. May I have a word?

Mr. BRAXTON. We have to cut you off.

Mr. McCABE. For this discussion that has gone on, I have an answer. Mr. BRAXTON. What do you mean by a "word"?

We are going to leave the record open for 10 days, and any of you gentlemen who have not had an opportunity to testify, if you will identify yourself now for the record?

STATEMENT OF A. ARNOLD BRAND, CHAIRMAN, COMMITTEE ON PATENTS AND TRADE MARKS, AND TRADE PRACTICES, CHICAGO BAR ASSOCIATION

Mr. BRAND. If your Honor please, I would like to identify myself as A. Arnold Brand, chairman of the committee on patents, trade marks, and trade practices of the Chicago Bar Association. That is the general bar association in Chicago.

I was going to speak in support of the bill as chairman of the committee because the association itself, through its board of managers, has not had an opportunity to review the entire matter. But as chairman of the committee, I was going to approve the bill with certain specified modifications.

I understand that these have already been presented by the coordinating committee, so if you will leave the record open we will supplement this appearance in support of a written amendment within the 10 days.

Mr. BRAXTON. That will be fine.
leading manufacturers of industrial stokers have taken out license on this system.

A differential pressure control is required to regulate the operation of the cooling apparatus. He wishes us to propose descriptive specifications and a price on a unit for this application. And if that seems satisfactory to him, he will purchase one of the units immediately for use in his own test laboratory. If those units that he would use perform satisfactorily, he will write a specification and recommend it to each licensee who, in turn, would each purchase their requirements directly from Merced.

Now this patent owner, he didn't go out and try to make money on the controls. Now, suppose we had approached him and taken a license and said, "The only way you can get this thing is by buying this control from us." That is the improper method which the Supreme Court in the Mercoid decisions objected to. That is what you are repealing or changing in section 251 (5).

The letter I have just quoted from shows you that there are methods for these owners of patents to license their patents. He is licensing his patents. He is recommending a control. He is not saying where they must buy it. We will sell it in a perfectly safe way and not with his cooperation. He needs that control for his purpose and we have to have some specifications for it.

Now, there is an approach, I think, that these people are forgetting—that is, that the patentee can go out and operate in a legal manner and not go out and make his money on the unpatented articles. The Supreme Court decision was very definite on that—that you cannot go out and we have not operated that way.

Rather than take up more of your time, I would suggest you again read the Mercoid decision. I believe there was an error made by Mr. Rich as to the Supreme Court decision on the Mercoid Midcontinent case being a 5-to-4 decision on the question of contributory infringement.

The disagreement of the Court was with respect to the subject of res judicata, relating to misuse as a defense, on the grounds that the defense could have been raised in an earlier suit but wasn't. As to the misappropriation principle, the Court was unanimous in the Mercoid Minneapolis-Honeywell case. I believe that you will find that there are ways for these inventors to license their patents without conditioning the right to obtain a monopoly on unpatented (by them) material. We are working with inventors right along. We are not trying to obtain a monopoly. This man found a way to meet a stoker invention and he is doing it nicely and he isn't infringing and isn't practicing the patent improperly; nor are we infringing his patent.

Mr. Betson. We will certainly refer to the Mercoid case.

Gentlemen, we are very much obliged to you, you highly technically trained attorneys of patent law.

As declared, we will leave the record open and those of you, even those who have not appeared in person, who have pertinent suggestions to make may submit them within this period.

Under those conditions the oral hearing has been concluded. (Whereupon, at 4:20 p.m., the hearing was concluded.)

APPENDIX

EXECUTIVE OFFICE OF THE PRESIDENT,
BUREAU OF THE BUDGET.
WASHINGTON, D.C., JUNE 28, 1951.

HON. EMILIO CERUTI,
Chairman, Judiciary Committee;
WASHINGTON, D.C.

Dear Mr. Chairman: Reference is made to H. R. 3700, a bill to revise and codify the laws relating to patents and the Patent Office, and to enact into law the so-called Bills of Rights Act. The House entitled "Patents," which is now pending in your committee.

An examination of this bill indicates that it rests directly in the Commissioner of Patents most of the functions not vested in other agencies of the Department, except those vested in hearing examiners, the Inland Waterways Corporation, and the Civil Aeronautics Board. It also authorized the Secretary to provide for the performance of any of its functions by any officer, employee, or agency of the Department. As a result of this reorganization plan, the patent functions are now legally vested in the Secretary of Commerce but are performed by the Commissioner of Patents by delegation from the Secretary.

Reorganization Plan No. 5 of 1950 is one of a series of reorganization plans which have become effective within the last two years transferring the functions of nearly all subordinate officers and agencies to the Secretary. In the case of six civil departments, a similar transfer has been by statute (Public Law 73, 81st Cong.) with respect to a seventh department, the Department of State, these transfers have been made to carry out two basic recommendations for improving departmental administration which were made by the Commission on Organization of the Executive Branch of the Government in its Report on General Management of the Executive Branch, namely:

"Recommendation No. 11: Under the President, the heads of departments must hold full responsibilities for the conduct of their departments. There must be a clear line of authority running through each step of the organization and so subordinate should have authority independent from that of his superior." (P. 41).

"Recommendation No. 26: We recommend that the department head should be given authority to determine the organization within his department." (P. 41).

These recommendations embody fundamental principles of effective administration which have been worked out through years of experience in Government and industry and have been widely applied in business organizations.

By vesting all functions directly in the department, subject to delegation by the Secretary as to the authority and responsibility of the department heads for the effective administration of the affairs of the department. At the same time these plans enable the department head to make adjustments in the internal organization of his department by means of the designations of the functions legally vested in him.

While in each case the head of the department initially redelegated the transferred functions to the officers who, had previously possessed them, a number of changes in the organization have already been made, and by reason of the Administration of defense activities. In the case of the Department of Commerce and the organization plan made it possible for the Secretary to transfer from the existing bureaus and units of activities needed in setting up the National Production Administration to handle defense responsibilities assigned to the Department. Though the reorganization plans were dealt with-

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